



**REPORT ON EXAMINATION  
OF  
STANDARD & PREFERRED INSURANCE COMPANY, INC.  
AS OF DECEMBER 31, 2020**

**EXAMINER:  
DATE OF REPORT:**

**TEENA VARGHESE, PIR  
MAY 26, 2022**

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KATHY HOCHUL  
Governor



ADRIENNE A. HARRIS  
Superintendent

May 26, 2022

Honorable Adrienne A. Harris  
Superintendent  
New York State Department of Financial Services  
Albany, New York 12257

Madam:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 32247 dated May 6, 2021, attached hereto, I have made an examination into the condition and affairs of Standard & Preferred Insurance Company, Inc. as of December 31, 2020, and submit the following report thereon.

Wherever the designation "the Company" appears herein without qualification, it should be understood to indicate Standard & Preferred Insurance Company, Inc.

Wherever the term "Department" appears herein without qualification, it should be understood to mean the New York State Department of Financial Services.

This examination was conducted remotely.

## 1. SCOPE OF EXAMINATION

The Department has performed an individual examination of Standard & Preferred Insurance Company, Inc., a single-state insurer. This is the first financial examination of the Company after the Report on Organization, which was conducted as of May 26, 2017. This examination covered the period from May 27, 2017, through December 31, 2020. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

This examination was conducted in accordance with the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook, which requires that we plan and perform the examination to evaluate the financial condition and identify current and prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks. This examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management’s compliance with New York laws, statutory accounting principles, and annual statement instructions.

This examination report includes, but is not limited to, the following:

- Company history
- Management and control
- Territory and plan of operation
- Reinsurance
- Holding company description
- Financial statement presentation
- Loss review and analysis
- Significant subsequent events
- Summary of recommendations

A review was also made to ascertain what action was taken by the Company with regard to the recommendations contained in the report on organization.

This report on examination is confined to financial statements and comments on those matters that involve departures from laws, regulations, or rules, or that are deemed to require explanation or description.

## 2. DESCRIPTION OF COMPANY

The Company was incorporated under the laws of the State of New York on July 20, 2012. It became licensed and commenced business on November 30, 2017. The Company is a wholly-owned subsidiary of Standard & Preferred Insurance Holdings, Inc. (“SPHI”), a Delaware corporation. SPHI is owned by two trusts: 75% by The Philipson Family LLC and 25% by Schlesinger Family Trust. The Company is ultimately controlled by Bent Philipson.

The Company was formed to service a niche market: it provides workers’ compensation coverage for the nursing home healthcare industry in New York State.

### A. Corporate Governance

Pursuant to the Company’s charter and by-laws, management of the Company is vested in a board of directors consisting of not less than seven nor more than ten members. The board meets four times during each calendar year. At December 31, 2020, the board of directors was comprised of the following seven members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Ira S. Lipsius Kew Gardens, NY	Partner, Lipsius Benhaim Law LLP
Bent Philipson Spring Valley, NY	President, Standard & Preferred Insurance Company, Inc. President, Graph Insurance Group, a Risk Retention Group, LLC
Gabrielle Philipson Spring Valley, NY	Corporate Advisor, Standard & Preferred Insurance Company, Inc.
Jarod Proto Farmington, CT	Chief Risk Officer, Graph Management, LLC Manager, Graph Insurance Group, a Risk Retention Group, LLC
Samuel Schlesinger Brooklyn, NY	President, Eagle North Risk Management
Stella M. Vilardi Rockville Center, NY	Executive Director, Ventura Services LLC

As of December 31, 2020, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
Bent Philipson	President
Ira S. Lipsius	Vice President and General Counsel
Mary Vazquez	Secretary
John S. Maloney	Treasurer

B. Territory and Plan of Operation

As of December 31, 2020, the Company was licensed to write business solely in New York.

As of the examination date, the Company was authorized to write workers' compensation and employers' liability insurance as defined in paragraph 15 of Section 1113(a) of the New York Insurance Law.

Based upon the lines of business for which the Company is licensed and the Company's current capital structure, and pursuant to the requirements of Articles 13 and 41 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of \$1,000,000.

The Company began writing business effective April 15, 2018. The following schedule shows the direct premiums written by the Company for the period under examination:

<u>Calendar Year</u>	<u>Direct Premiums</u>
2017	\$ 0
2018	\$15,612,039
2019	\$24,666,364
2020	\$43,639,351

The Company writes workers' compensation business through a managing general agent, Graph MGA LLC, formerly known as Flatiron Agency, LLC, which targets small and medium sized entities in the nursing home healthcare industry. At December 31, 2020, Graph MGA LLC engaged with twenty sub-brokers. The Company's direct premiums written has increased significantly in a short period of time. During the period beginning April 15, 2018 through December 31, 2018, Company had \$15,612,039 in written premiums, of which approximately 25% derived from entities that were controlled by the Philipson Family LLC and/or Mr. Philipson. This percentage dropped in 2019 and again in 2020 as the Company continued to expand its business to non-affiliated entities. In 2020, the Company had \$43,639,351 in written premiums. Due to the significant increase in premium writings, and in order to maintain a favorable risk-

based capital (“RBC”) score, the Company received an \$8 million contribution from Mr. Bent Philipson as of December 31, 2020. On July 19, 2021, the Department approved this \$8 million surplus note contribution.

C. Reinsurance Ceded

The Company has structured its ceded reinsurance program as follows:

<u>Type of Coverage</u>	<u>Cession</u>
Excess of Loss	\$4,000,000 excess of \$1,000,000 for all occurrences (per occurrence and annual aggregate), inclusive of losses and loss expenses incurred during the reinsurance policy period per reinsured policy. Maximum aggregate limit of \$4,000,000.

The Company’s ceded business was to an unauthorized reinsurer. The Company reported approximately \$3,850,000 in net reinsurance recoverable from the unauthorized reinsurer as of the examination date. It is the Company’s policy to obtain appropriate collateral for its cessions to unauthorized reinsurers. The two letters of credit obtained by the Company to take credit for cessions to the unauthorized reinsurer were reviewed for compliance with Department Regulation 133.

The reinsurance agreement was reviewed and found to contain the required clauses, including an insolvency clause meeting the requirements of Section 1308 of the New York Insurance Law.

Examination review found that the Schedule F data reported by the Company in its filed annual statement accurately reflected its reinsurance transactions. Additionally, management has represented that the ceded reinsurance agreement transferred both underwriting and timing risk as set forth in the NAIC Accounting Practices and Procedures Manual, Statement of Statutory Accounting Principles (“SSAP”) No. 62R. Additionally, examination review indicated that the Company was not a party to any finite reinsurance agreements. The ceded reinsurance agreement was accounted for utilizing reinsurance accounting as set forth in SSAP No. 62R.

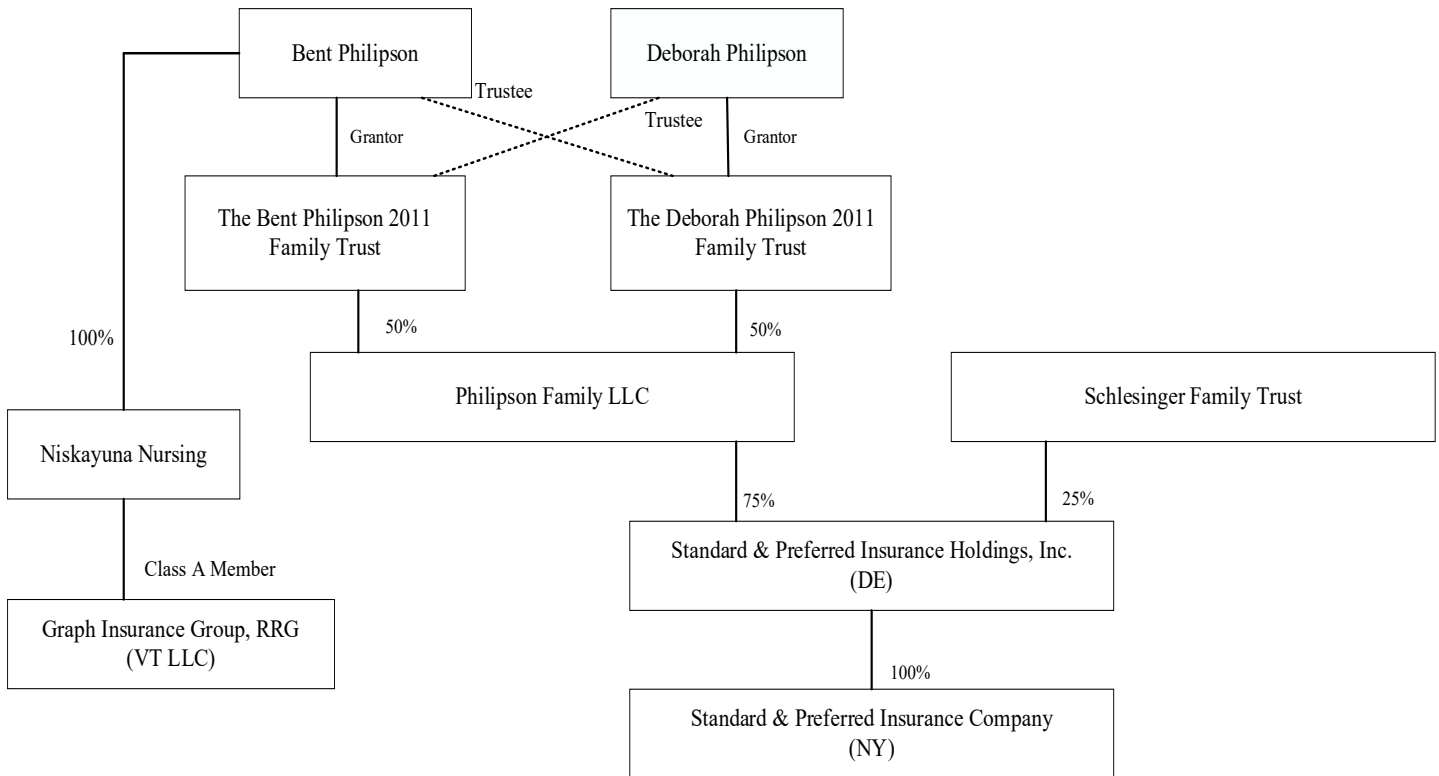
D. Holding Company System

The Company is a member of the Bent Philipson Group. The Company is a wholly-owned subsidiary of SPHI, a Delaware corporation, which is ultimately controlled by Bent Philipson and Deborah Philipson.

The Company was formed to service a niche market in which its owners have expertise from a nursing home services perspective. The Company focuses on workers' compensation coverage for the nursing home healthcare industry in New York State. Bent Philipson is a managing member of several nursing homes and rehabilitation centers. Mr. Philipson also has an ownership interest in some of these entities.

A review of the holding company registration statements filed with this Department indicated that such filings were complete and were filed in a timely manner pursuant to Article 15 of the New York Insurance Law and Department Regulation 52.

The following is an abridged chart of the holding company system at December 31, 2020:



In March 2022, Mrs. Deborah Philipson deceased.

### Holding Company Agreements

At December 31, 2020, the Company was party to the following agreement with other members of its holding company system:



## Tax Allocation Agreement

The Company and various affiliates (collectively “S&PHI affiliated group”) entered into a tax allocation agreement, dated October 1, 2019, with SPHI. Effective with tax year 2019, each affiliate agrees to file a consolidated income tax return and a combined income tax return. Based on the agreement, the Company, on behalf of the S&PHI affiliated group, shall pay SPHI the consolidated payments on behalf of the S&PHI affiliated group for all returns. If the S&PHI affiliated group is entitled to a payment pursuant to the final determination, a settlement will occur no more than 10 days before and no later than 30 days after following the date of SPHI having received payments from the relevant taxing authority. If the S&PHI affiliated group is not entitled to a payment pursuant to a final determination, the affiliates will settle with SPHI within 30 days following the date of SPHI having made payment to the relevant taxing authority. The agreement was filed with this Department pursuant to Section 1505 of the New York Insurance Law.

### E. Significant Ratios

The following operating ratios, computed as of December 31, 2020, fall within the benchmark ranges set forth in the Insurance Regulatory Information System of the NAIC.

<u>Operating Ratios</u>	<u>Result</u>
Adjusted liabilities to liquid assets	90%
Two-year overall operating	95%

The Company’s ratio of net premiums written to policyholders’ surplus of 619% falls outside of the benchmark range.

### Underwriting Ratios

The underwriting ratios presented below are on an earned/incurred basis and encompass the period covered by this examination:

	<u>Amount</u>	<u>Ratio</u>
Losses and loss adjustment expenses incurred	\$38,598,227	65.75%
Other underwriting expenses incurred	23,570,131	40.15%
Net underwriting gain (loss)	<u>(3,466,087)</u>	<u>(5.90)%</u>
Premiums earned	<u>\$58,702,271</u>	<u>100.00%</u>

### 3. FINANCIAL STATEMENTS

#### A. Balance Sheet

The following shows the assets, liabilities, and surplus as regards policyholders as of December 31, 2020, as reported by the Company:

#### Assets

	<u>Assets</u>	<u>Nonadmitted</u> <u>Assets</u>	Net Admitted <u>Assets</u>
Bonds	\$ 3,997,356	\$ 0	\$ 3,997,356
Common stocks (stocks)	379,447	0	379,447
Cash, cash equivalents and short-term investments	32,056,084	0	32,056,084
Investment income due and accrued	18,525	0	18,525
Uncollected premiums and agents' balances in the course of collection	2,330,886	1,179,681	1,151,205
Deferred premiums, agents' balances and installments booked but deferred and not yet due	22,104,989	0	22,104,989
Current federal and foreign income tax recoverable and interest thereon	331,486	0	331,486
Net deferred tax asset	<u>1,322,814</u>	<u>0</u>	<u>1,322,814</u>
Total assets	<u>\$62,541,587</u>	<u>\$1,179,681</u>	<u>\$61,361,906</u>

Liabilities, Surplus and Other FundsLiabilities

Losses and Loss Adjustment Expenses	\$30,186,621
Commissions payable, contingent commissions and other similar charges	3,003,689
Other expenses (excluding taxes, licenses and fees)	(59,132)
Taxes, licenses and fees (excluding federal and foreign income taxes)	934,493
Unearned premiums	19,900,236
Ceded reinsurance premiums payable (net of ceding commissions)	306,427
Amounts withheld or retained by company for account of others	<u>557,207</u>
Total liabilities	\$54,829,541

Surplus and Other Funds

Common capital stock	\$1,000,000
Gross paid in and contributed surplus	9,010,042
Unassigned funds (surplus)	<u>(3,477,677)</u>
Surplus as regards policyholders	<u>6,532,365</u>
Total liabilities, surplus and other funds	<u>\$61,361,906</u>

Note: The Internal Revenue Service has not audited tax returns covering the period under examination. The examiner is unaware of any potential exposure of the Company to any tax assessment and no liability has been established herein relative to such contingency.

B. Statement of Income

The net loss for the examination period as reported by the Company was \$3,665,975, as detailed below:

Underwriting Income

Premiums earned		\$58,702,271
Deductions:		
Losses and loss adjustment expenses incurred	\$38,598,227	
Other underwriting expenses incurred	<u>23,570,131</u>	
Total underwriting deductions		<u>62,168,358</u>
Net underwriting gain or (loss)		\$(3,466,087)

Investment Income

Net investment income earned	\$ 692,341	
Net realized capital gain	<u>271,406</u>	
Net investment gain or (loss)		<u>963,747</u>
Net income to policyholders before federal and foreign income taxes		\$(2,502,340)
Federal and foreign income taxes incurred		<u>1,153,635</u>
Net income or (loss)		<u>\$(3,655,975)</u>

C. Capital and Surplus

Capital paid in is \$1,000,000 consisting of 1,000,000 shares of \$1 par value per share common stock. Gross paid in and contributed surplus is \$9,010,042. Capital paid in and gross paid in and contributed surplus did not change during the examination period.

Surplus as regards policyholders decreased \$3,482,827 during the examination period May 27, 2017, through December 31, 2020, as reported by the Company, detailed as follows:

Surplus as regards policyholders as reported by the Company as of May 26, 2017			\$10,015,192
	<u>Gains in</u> <u>Surplus</u>	<u>Losses in</u> <u>Surplus</u>	
Net income		\$3,655,975	
Net unrealized capital gains or (losses)	\$ 35,166		
Change in net deferred income tax	1,322,813		
Change in nonadmitted assets		1,179,681	
Capital changes paid in	1,000,000		
Surplus adjustments paid in	<u>0</u>	<u>1,005,150</u>	
Total gains and losses	\$2,357,979	\$5,840,806	
Net increase (decrease) in surplus			<u>(3,482,827)</u>
Surplus as regards policyholders as reported by the Company as of December 31, 2020			<u>\$6,532,365</u>

No adjustments were made to surplus as a result of this examination.

**4. LOSSES AND LOSS ADJUSTMENT EXPENSES**

The examination liability for the captioned items of \$30,186,621 is the same as reported by the Company as of December 31, 2020. The examination analysis of the loss and loss adjustment expense reserves was conducted in accordance with actuarial standards of practice and statutory accounting principles, including SSAP No. 55.

## 5. SUBSEQUENT EVENTS

On March 11, 2020, the World Health Organization declared an outbreak of a novel coronavirus (“COVID-19”) pandemic. The COVID-19 pandemic has continued to develop, with significant uncertainty remaining regarding the full effect of COVID-19 on the U.S. and global insurance and reinsurance industry. At the time of releasing this report, the examination’s review noted that there has not been a significant impact to the Company. The Department has been in communication with the Company regarding the impact of COVID-19 on its business operations and financial position. The Department continues to closely monitor the impact of the pandemic on the Company and will take necessary action if a solvency concern arises.

## 6. COMPLIANCE WITH REPORT ON ORGANIZATION

The report on organization contained two recommendations as follows (page numbers refer to the prior report):

<u>ITEM</u>		<u>PAGE NO.</u>
A.	<u>Declaration of Intention and Charter and By-laws</u>	
i.	It was recommended that the Company amend Section 3 of its declaration of intention and charter, and Article II, Section 3 of its by-laws to reflect the correct home office location.	3
	The Company has complied with this recommendation.	
ii.	It was also recommended that the Company file an amendment to its declaration of intention and charter to reflect the correct home office location with the Superintendent of Insurance pursuant to Section 1206 of the New York Insurance Law.	3
	The Company has complied with this recommendation.	

## 7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

This report on examination does not contain any comments or recommendations.

Respectfully submitted,

\_\_\_\_\_/S/\_\_\_\_\_  
Teena Varghese, PIR  
Senior Insurance Examiner

STATE OF NEW YORK    )  
                                  )ss:  
COUNTY OF NEW YORK )

Teena Varghese, being duly sworn, deposes and says that the foregoing report, subscribed by her, is true to the best of her knowledge and belief.

\_\_\_\_\_/S/\_\_\_\_\_  
Teena Varghese

Subscribed and sworn to before me

this \_\_\_\_\_ day of \_\_\_\_\_, 2022.

**NEW YORK STATE**

**DEPARTMENT OF FINANCIAL SERVICES**

I, Linda A. Lacewell, Superintendent of Financial Services of the State of New York, pursuant to the provisions of the Financial Services Law and the Insurance Law, do hereby appoint:

**Teena Varghese**

as a proper person to examine the affairs of the

**Standard & Preferred Insurance Company, Inc.**

and to make a report to me in writing of the condition of said

**COMPANY**

with such other information as she shall deem requisite.

In Witness Whereof, I have hereunto subscribed by name  
and affixed the official Seal of the Department  
at the City of New York

this 6th day of May, 2021

LINDA A. LACEWELL  
Superintendent of Financial Services

By:

Joan Riddell

Joan Riddell  
Deputy Bureau Chief

